

Message Text

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PAGE 01 BERN 04250 110913Z

14

ACTION EB-07

INFO OCT-01 AF-06 EUR-12 IO-10 ISO-00 AID-05 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 DODE-00 PM-04 H-02 L-03 PA-02

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R 110729Z OCT 75

FM AMEMBASSY BERN

TO SECSTATE WASHDC 1505

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USDEL MTN GENEVA UNN

USMISSION OECD PARIS UNN

AMCONSUL ZURICH

UNCLAS BERN 4250

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, ECON, SZ

SUBJECT: SWISS FINANCIAL AND ECONOMIC DEVELOPMENTS: WEEK OF
OCTOBER 4-10

1. SUMMARY. THE DOLLAR WAS SUBJECT TO STRONG SELLING
PRESSURE THROUGH MOST OF THIS WEEK AND FELL SHARPLY IN
SPITE OF INTERVENTION BY THE SWISS NATIONAL BANK ESTIMATED
BY TRADERS TO AMOUNT TO BETWEEN \$100 AND \$200 MILLION.
THE GOLD MARKET WAS QUIET. THE GOLD PRICE AT THE END
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PAGE 02 BERN 04250 110913Z

OF THE WEEK WAS \$4 HIGHER THAN AT THE BEGINNING. A

MAJOR SWISS BANK HAS EXPRESSED SUPPORT, WITH A NUMBER OF QUALIFICATIONS, FOR SWISS ENTRY INTO THE SNAKE. THE MONEY AND CAPITAL MARKETS REMAINED VERY LIQUID. SWISS FOREIGN EXCHANGE RESERVES FELL BY 28.6 MILLION SF TO 10,077 MILLION SF. END SUMMARY.

2. FOREIGN EXCHANGE AND GOLD: THE DOLLAR OPENED SLIGHTLY HIGHER ON MONDAY, OCTOBER 6, AT 272.60 BUT FELL RAPIDLY IN A VERY ACTIVE MARKET MARKED BY REPORTEDLY HEAVY INTERVENTION BY THE SWISS NATIONAL BANK. AFTER DROPPING TO 2.6880, THE RATE RECOVERED TO 2.7000 AT THE OPENING ON THURSDAY, BUT ON FRIDAY IT DROPPED TO A LOW OF 2.6600, CLOSING AT 2.6640. PRESSURE ON THE DOLLAR WAS ATTRIBUTED TO CONFUSION ARISING FROM CONTRADICTORY REPORTS FROM THE UNITED STATES ON NEW YORK'S FINANCIAL PROBLEMS AND US MONETARY POLICY, THE INCREASE IN THE US BUDGET DEFICIT FORECAST, AND CHANGES IN INTEREST RATES. IN CONTRAST, LARGE MOVEMENTS OUT OF STERLING INTO DOLLARS; GUILDERS, AND DM WERE REPORTED TO HAVE OCCURRED DURING THE WEEK. ON FRIDAY SELLING PRESSURE WAS REINFORCED BY PESSIMISTIC ARTICLES IN THE NEUE ZURCHER ZEITUNG AND THE AGENCE ECONOMIQUE ET FINANCIERE ON NEW YORK'S PROSPECTS FOR AVOIDING BANKRUPTCY AND A REPORT THAT ARTHUR BURNS HAS LET IT BE KNOWN QUOTE WITH ENOUGH CLARITY TO LEAVE NO DOUBT AS TO HIS VIEWS END QUOTE THAT THE POSSIBILITY OF BANKRUPTCY CANNOT BE EXCLUDED. THE SWISS NATIONAL BANK AGAIN INTERVENED BUT TO NO AVAIL, AND GAVE UP AFTER AN EFFORT LASTING ABOUT 30 MINUTES.

THE GOLD MARKET, ON THE OTHER HAND, WAS QUIET ALL WEEK, WITH BELOW AVERAGE TURNOVER. GOLD OPENED ON MONDAY AT \$138; IT CLOSED ON FRIDAY AT \$142; HAVING TRADED AT BETWEEN \$138-\$142 DURING THE WEEK. WE ARE TOLD THAT SPECULATIVE BUYERS WERE NOT IN THE MARKET; INSTITUTIONAL INVESTORS WERE, BUT NOT IN LARGE VOLUME.

THERE WAS RELATIVELY LITTLE FLUCTUATION IN THE SF/DM RATE, WHICH OPENED ON MONDAY AT 103.59 AND CLOSED ON FRIDAY AT 103.25.

RATES WERE AS FOLLOWS:

9/29 (OPEN) 10/3 (CLOSE)

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PAGE 03 BERN 04250 110913Z

SPOT DOLLAR	SF 272.60	266.40
FORWARD DISCOUNTS		
(PCT. P.A.)		
ONE MONTH	5.22	4.86
TWO MONTHS	5.06	4.68
THREE MONTHS	4.33	4.05
GSIX MONTHS	4.42	4.13
TWELVE MONTHS	3.76	3.64

GOLD	\$ 138	\$ 142
SF/DM	SF 103.59	103.25

3. A MAJOR SWISS BANK'S VIEWS ON SWISS PARTICIPATION IN THE SNAKE: THE UNION BANK OF SWITZERLAND ADMITS THAT EARLIER STATEMENTS THAT THE SF WAS OVERVALUED WHEN THE SF/DM RATE WAS 107.35 WERE WRONG, AND THAT AS THE SF HAS MOVED INTO AN EVEN MORE OVERBOUGHT CONDITION, ENTRY INTO THE SNAKE BECAME MUCH MORE ATTRACTIVE. FIXED EXCHANGE RATES WOULD CERTAINLY IMPROVE TRADE RELATIONS WITH THE SNAKE PARTICIPANTS. HOWEVER, CURRENT EFFORTS TO BRING THE SF INTO "A MORE REALISTIC JUXTPOSITION" WITH THE DM ARE REQUIRED. IF THE RATE HARDENS TO 105, OR MORE, THAT WOULD BE SATISFACTORY LEVEL. THE UBS PREDICTS THAT MOVEMENT INTO THE SNAKE WOULD INITIALLY RESULT IN MOVEMENT OF THE SF TO THE WEAKER SIDE OF THE SNAKE.

4. MONEY AND CAPITAL MARKETS: STOCK PRICES DRIFTED LOWER FROM MONDAY THROUGH WEDNESDAY; THE SKA INDEX (END 1959 EQUALS 100) FELL FROM 175.4 TO 174.3 ON WEDNESDAY, BUT RECOVERED TO 174.8 ON THURSDAY. MOST OF THE CREDITS MADE AVAILABLE TO THE BANKS BY THE SWISS NATIONAL BANK FOR END-SEPTEMBER HAVE BEEN REPAID. RESERVES OF FOREIGN EXCHANGE DROPPED BY 28.6 MILLION SF TO 10,077 MILLION AS A RESULT OF THE RENEWAL OF SHORT-TERM DOLLAR SWAPS; THE AMOUNT WOULD HAVE BEEN GREATER WERE IT NOT FOR RECEIPTS FROM MARKET INTERVENTION. THE CALL MONEY RATE WAS UNCHANGED AT .5 PERCENT; THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS FELL FROM 6.17 PERCENT ON OCTOBER 3 TO 6.15 PERCENT ON OCTOBER 10. LOANS ANNOUNCED INCLUDED A SEVEN AND THREE-FOURTHS PERCENT 80 MILLION SF FIFTEEN YEAR ECSC

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PAGE 04 BERN 04250 110913Z

OFFERING, ISSUE PRICE NOT YET DETERMINED, AND THE ROLL-OVER OF A 30 MILLION CANTON DE GRISONS BOND ISSUE AT SIX AND THREE-FOURTHS PERCENT, DURATION 14 YEARS AT A PRICE OF 100.50.

ODELL

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